

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Watertown Charter Township	County Clinton
Fiscal Year End December 31, 2006	Opinion Date June 14, 2007	Date Audit Report Submitted to State June 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

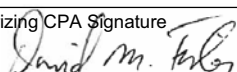
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

WATERTOWN CHARTER TOWNSHIP

Clinton County, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2006**



REHMANN ROBSON

Certified Public Accountants

WATERTOWN CHARTER TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

June 14, 2007

Board of Trustees
Watertown Charter Township
Grand Ledge, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of ***Watertown Charter Township, Michigan***, as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watertown Charter Township, Michigan, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watertown Charter Township's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As the Township Board of Watertown Charter Township, Clinton County, Michigan, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 31, 2006.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$12,960,510 (*net assets*). Of this amount, \$12,159,467 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The assets of the Township at the close of 2005 exceeded its liabilities by \$10,707,930 (*net assets*). Of this amount, \$7,636,502 was *unrestricted net assets*.
- The government's total net assets increased by \$2,252,580 in 2006 compared to \$342,392 during 2005.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,727,815 an increase of \$644,548 in comparison with the prior year's ending fund balance of \$2,083,269. Approximately 99 percent of this total amount, or \$2,705,190 is available for spending at the government's discretion (*unreserved fund balance*) compared to \$2,056,306 at the end of 2005.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,424,831 or 108 percent of total general fund expenditures compared to \$1,768,281 or 112 percent ending in 2005.
- The Township's total bonded debt increased by \$2,958,665 during the current fiscal year; from \$2,949,670 ending in 2005 to \$5,908,335 fiscal year end 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include legislative, general government, public safety, public works, and parks and recreation. The business-type activities of the Township include sanitary sewer and water distribution operations.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund, and for the three nonmajor funds in the aggregate.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. *Enterprise funds, the only propriety fund type used by the Township*, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprise funds to account for its sanitary sewer and for water distribution operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements provide separate information for the sanitary sewer and water distribution systems, both of which are considered to be major funds of the Township.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements..

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Watertown Charter Township, assets exceeded liabilities by \$12,960,510 at the close of the most recent fiscal year.

Of the Township's net assets, \$5220,684 (4 percent) reflects its investment in capital assets (e.g. infrastructure, land, buildings, equipment, and vehicles); less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, the Township owns assets in a joint venture with Eagle Township known as the Looking Glass Regional Fire Authority. Currently the authority is funded primarily thru contributions from Watertown Charter Township (65%) and Eagle Township (35%). The Authority reported Capital Assets (net of depreciation) of \$1,856,805 as of December 31, 2005 and \$1,749,704 as of December 31, 2006 for fixtures, building, equipment, and land.

At the end of the current year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$2,252,583 during the current fiscal year. Most of the increase is attributable to additions to the sanitary sewer system. The large increase in net assets reported for fiscal 2006 was primarily related to new construction for residential development.

Governmental activities. Governmental activities decreased the Township's net assets by \$172,454 during fiscal year 2006. Key elements of this change relate to road improvements and to reductions in revenues from building activities.

Business-type activities. Business-type activities increased the Township's net assets by \$2,425,037 during fiscal year 2006 due primarily to funding for construction in progress for additions to the sanitary sewer system.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 4,822,451	\$ 3,218,474	\$ 10,665,181	\$ 5,983,107	\$ 15,487,632	\$ 9,201,581
Capital assets	194,429	153,289	5,505,629	5,502,588	5,700,058	5,655,877
Total assets	5,016,880	3,371,763	16,170,810	11,485,695	21,187,690	14,857,458
Liabilities						
Long-term liabilities outstanding	2,098,485	83,385	195,891	2,871,885	2,294,376	2,955,270
Other liabilities	935,344	1,132,873	4,997,460	61,388	5,932,804	1,194,261
Total liabilities	3,033,829	1,216,258	5,193,351	2,933,273	8,227,180	4,149,531
Net assets						
Invested in capital assets, net of related debt	194,429	153,289	326,255	2,630,703	520,684	2,783,992
Restricted	280,359	287,436	-	-	280,359	287,436
Unrestricted	1,508,263	1,714,780	10,651,204	5,921,719	12,159,467	7,636,499
Total net assets	\$ 1,983,051	\$ 2,155,505	\$ 10,977,459	\$ 8,552,422	\$ 12,960,510	\$ 10,707,927
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenues						
Charges for services	\$ 243,888	\$ 359,209	\$ 652,545	\$ 772,393	\$ 896,433	\$ 1,131,602
Operating grants and contributions	51	103	-	-	51	103
Capital grants and contributions	61,117	1,549	2,405,000	-	2,466,117	1,549
General revenues						
Property taxes	1,098,633	1,003,829	-	-	1,098,633	1,003,829
Other	625,034	584,063	76,501	85,929	701,535	669,992
Special item	-	-	-	-	-	-
Total revenue	2,028,723	1,948,753	3,134,046	858,322	5,162,769	2,807,075
Expenses:						
Legislative	35,494	33,087	-	-	35,494	33,087
General government	756,599	690,090	-	-	756,599	690,090
Public safety	530,504	576,019	-	-	530,504	576,019
Public works	800,257	179,861	-	-	800,257	179,861
Community and economic development	81,586	82,656	-	-	81,586	82,656
Recreation and cultural	10,206	9,222	-	-	10,206	9,222
Interest on long-term debt	6,499	5,395	-	-	6,499	5,395
Sewage disposal	-	-	536,357	643,111	536,357	643,111
Water extension	-	-	152,684	245,245	152,684	245,245
Total expenses	2,221,145	1,576,330	689,041	888,356	2,910,186	2,464,686
Change in net assets before transfers	(192,422)	372,423	2,445,005	(30,034)	2,252,583	342,389
Transfers	19,968	25,201	(19,968)	(25,201)	-	-
Change in net assets	(172,454)	397,624	2,425,037	(55,235)	2,252,583	342,389
Net assets, beginning of year	2,155,505	1,757,881	8,552,422	8,607,657	10,707,927	10,365,538
Net assets, end of year	\$ 1,983,051	\$ 2,155,505	\$ 10,977,459	\$ 8,552,422	\$ 12,960,510	\$ 10,707,927

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$2,727,815 an increase of \$644,548 in comparison with the prior year. Approximately 99 percent of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for prepaid expenditures.

The General Fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,424,831 while total fund balance was \$2,447,456. Unreserved fund balance represents 108 percent of total general fund expenditures.

The fund balance of the Township's General Fund increased by \$652,304 during the current fiscal year, primarily as a result of ongoing revenues exceeding ongoing expenditures. .

Proprietary funds. The Township's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund and Water Extension Funds at the end of the year amounted to \$8,481,441 and \$2,169,763 respectively. The sewer fund had an increase for the year of \$4,036,874 and the water fund had an increase for the year of \$692,610. Funds available for construction taking place in 2007 are \$2,010,000 and \$395,000 for sewer and water respectively.

General Fund Budgetary Highlights

Differences between the original and final amended budgeted revenues were for the most part, twofold: A small decrease in expected revenues was experienced along with reasonable savings in expenses through efforts to keep expenses near previous levels and a reduction in road maintenance projects.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental and business type activities as of December 31, 2006, amounted to \$7,066,749 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, infrastructure, buildings and improvements, park and recreation facilities, machinery and equipment and construction in progress. The total increase in the Township's investment in capital assets for the current fiscal year of \$345,228 resulted primarily from investments in sewer system improvements.

Additional information on the Township's capital assets can be found in note 3-C on of the Notes to the Financial Statement section of this report.

Long-term debt. At the end of the current fiscal year, the Township had total bonded debt outstanding of \$5,908,335. Of this amount, the entire debt is backed by the full faith and credit of the government.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. Additional information on the Township's long-term debt can be found in note 3-F. on pages 33-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Township's budget for the 2007 fiscal year:

- The emphasis on controlling costs yet providing quality services to our citizens continued to be a major consideration in the 2007 budget development.
- While the total ad valorem taxable values increased from 2006 to 2007, estimates were reduced to anticipate the slowdown expected in new building and the effect on related services.
- Statutory state-shared revenues are expected to continue to decline as the state's economy continues to decline.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Clerk, Watertown Charter Township, 12803 S Wacousta Road, Grand Ledge, Michigan 48837, E-mail: Jhusby@watertowntownship.com.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Net Assets

December 31, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 1,311,539	\$ 706,800	\$ 2,018,339
Restricted cash and cash equivalents	-	167,013	167,013
Investments	1,867,838	4,165,810	6,033,648
Internal balances	5,800	(5,800)	-
Receivables, net	1,623,146	4,147,926	5,771,072
Prepaid items and other assets	14,128	116,741	130,869
Investment in joint venture	-	1,366,691	1,366,691
Capital assets not being depreciated	41,570	181,914	223,484
Capital assets being depreciated, net	152,859	5,323,715	5,476,574
Total assets	5,016,880	16,170,810	21,187,690
Liabilities			
Accounts payable and accrued expenses	63,601	195,891	259,492
Unearned revenue	2,034,884	-	2,034,884
Long-term liabilities:			
Due within one year	80,344	400,000	480,344
Due in more than one year	855,000	4,597,460	5,452,460
Total liabilities	3,033,829	5,193,351	8,227,180
Net assets			
Invested in capital assets, net of related debt	194,429	326,255	520,684
Restricted for:			
Debt service	3,445	-	3,445
Capital projects	75,720	-	75,720
Improvements	201,194	-	201,194
Unrestricted	1,508,263	10,651,204	12,159,467
Total net assets	\$ 1,983,051	\$ 10,977,459	\$ 12,960,510

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 35,494	\$ -	\$ -	\$ -	\$ (35,494)
General government	756,599	45,090	-	-	(711,509)
Public safety	530,504	24,904	-	-	(505,600)
Public works	800,257	-	-	61,117	(739,140)
Community and economic development	81,586	165,391	-	-	83,805
Recreation and cultural	10,206	8,329	51	-	(1,826)
Interest on long-term debt	6,499	174	-	-	(6,325)
Total governmental activities	2,221,145	243,888	51	61,117	(1,916,089)
Business-type activities:					
Sewage disposal	536,357	501,721	-	2,010,000	1,975,364
Water extension	152,684	150,824	-	395,000	393,140
Total business-type activities	689,041	652,545	-	2,405,000	2,368,504
Total primary government	\$ 2,910,186	\$ 896,433	\$ 51	\$ 2,466,117	\$ 452,415

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended December 31, 2006

Functions/Programs	Primary Government		Total
	Governmental Activities	Business-type Activities	
Changes in net assets			
Net (expense) revenue	\$ (1,916,089)	\$ 2,368,504	\$ 452,415
General revenues:			
Property taxes	1,098,633	-	1,098,633
Grants and contributions not restricted to specific programs	404,113	-	404,113
Other unrestricted revenue	127,803	-	127,803
Unrestricted investment earnings	88,755	-	88,755
Gain on sale of capital assets	4,363	-	4,363
Gain on investment in joint venture	-	76,501	76,501
Transfers - internal activities	19,968	(19,968)	-
Total general revenues and transfers	1,743,635	56,533	1,800,168
Change in net assets	(172,454)	2,425,037	2,252,583
Net assets, beginning of year	2,155,505	8,552,422	10,707,927
Net assets, end of year	\$ 1,983,051	\$ 10,977,459	\$ 12,960,510

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN**Balance Sheet****Governmental Funds****December 31, 2006**

	General	Nonmajor Funds	Totals
Assets			
Cash and cash equivalents	\$ 1,174,744	\$ 136,795	\$ 1,311,539
Investments	1,684,946	182,892	1,867,838
Taxes receivable	630,314	15,754	646,068
Special assessments receivable	881,758	-	881,758
Accounts receivable	250	250	500
Due from other governments	94,820	-	94,820
Due from other funds	33,158	-	33,158
Prepaid expenditures	14,128	-	14,128
<u>TOTAL ASSETS</u>	<u>\$ 4,514,118</u>	<u>\$ 335,691</u>	<u>\$ 4,849,809</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 41,853	\$ -	\$ 41,853
Accrued wages	14,888	-	14,888
Other liabilities	3,011	-	3,011
Due to other funds	-	27,358	27,358
Deferred revenue	2,006,910	27,974	2,034,884
Total liabilities	2,066,662	55,332	2,121,994
Fund balances			
Reserved for prepaids	14,128	-	14,128
Unreserved:			
Designated for subsequent year expenditures	8,497	-	8,497
Undesignated	2,424,831	-	2,424,831
Undesignated, reported in nonmajor:			
Special revenue funds	-	201,194	201,194
Debt service funds	-	3,445	3,445
Capital projects funds	-	75,720	75,720
Total fund balances	2,447,456	280,359	2,727,815
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 4,514,118</u>	<u>\$ 335,691</u>	<u>\$ 4,849,809</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2006

Fund balances - total governmental funds	\$ 2,727,815
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets not being depreciated	41,570
Add: capital assets being depreciated	152,859

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(911,335)
Subtract: compensated absences	(24,009)
Subtract: accrued interest on long-term liabilities	(3,849)

Net assets of governmental activities	<u><u>\$ 1,983,051</u></u>
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The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Nonmajor Funds	Totals
Revenue			
Taxes	\$ 1,064,716	\$ 33,917	\$ 1,098,633
Special assessments	74,953	-	74,953
Licenses and permits	276,973	-	276,973
State revenue sharing	289,783	-	289,783
Charges for services	41,830	3,615	45,445
Interest	88,755	11,543	100,298
Rentals	22,423	-	22,423
Contributions and donations	114,381	-	114,381
Other revenue	4,482	-	4,482
Total revenue	1,978,296	49,075	2,027,371
Expenditures			
Current:			
Legislative	35,494	-	35,494
General government	725,672	15	725,687
Public safety and health	534,754	-	534,754
Public works	734,485	-	734,485
Community and economic development	81,586	-	81,586
Recreation and cultural	3,022	-	3,022
Capital outlay	132,310	5,152	137,462
Debt service:			
Principal	-	31,335	31,335
Interest	-	3,329	3,329
Total expenditures	2,247,323	39,831	2,287,154
Revenue over (under) expenditures	(269,027)	9,244	(259,783)
Other financing sources			
Transfers in	36,968	-	36,968
Transfers out	-	(17,000)	(17,000)
Proceeds from sales of capital assets	4,363	-	4,363
Proceeds from issuance of bonds	880,000	-	880,000
Total other financing sources	921,331	(17,000)	904,331
Net change in fund balances	652,304	(7,756)	644,548
Fund balances, beginning of year	1,795,152	288,115	2,083,267
Fund balances, end of year	<u>\$ 2,447,456</u>	<u>\$ 280,359</u>	<u>\$ 2,727,815</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006

Net change in fund balances - total governmental funds	\$ 644,548
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	64,282
Subtract: depreciation expense	(23,142)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to following years.

Subtract: current year revenue received on long-term receivables	(3,011)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.

Add: principal payments on long-term liabilities	31,335
Subtract: bond proceeds	(880,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Subtract: increase in the accrual for accrued interest on bonds	(3,170)
Subtract: increase in the accrual of compensated absences	(3,296)

Change in net assets of governmental activities	<u>\$ (172,454)</u>
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The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes	\$ 1,037,934	\$ 1,037,934	\$ 1,064,716	\$ 26,782
Special assessments	13,835	13,835	74,953	61,118
Licenses and permits:				
Landfill	50,000	50,000	51,660	1,660
Planning, zoning & building	289,280	289,280	165,391	(123,889)
Franchise fees	67,000	67,000	59,922	(7,078)
State revenue sharing	291,000	291,000	289,783	(1,217)
Charges for services:				
Fire runs	40,200	40,200	24,904	(15,296)
Cemetery	6,900	6,900	10,673	3,773
Parks and recreation	-	-	656	656
Other	5,402	5,402	5,597	195
Interest	16,000	16,000	88,755	72,755
Rentals:				
Parks	4,075	4,075	7,673	3,598
Other	16,200	16,200	14,750	(1,450)
Contributions and donations:				
G.L.I.T.	115,000	115,000	114,330	(670)
Parks	-	-	51	51
Other revenue	28,550	28,550	4,482	(24,068)
Total revenue	1,981,376	1,981,376	1,978,296	(3,080)
Expenditures				
Legislative				
Township board	45,922	45,922	35,494	(10,428)
General government				
Supervisor	18,668	24,588	21,635	(2,953)
Elections	4,907	9,401	9,105	(296)
Assessor	50,390	51,490	51,453	(37)
Attorney	50,000	50,000	10,951	(39,049)
Clerk	56,713	61,134	60,061	(1,073)
Board of review	876	876	581	(295)
Treasurer	57,157	61,493	59,842	(1,651)
General services administration	392,374	392,374	347,745	(44,629)
Buildings and grounds	137,366	137,366	136,013	(1,353)
Other property	3,000	3,000	2,320	(680)
Cemetery	4,971	4,971	3,679	(1,292)
Insurance	25,850	25,850	21,910	(3,940)
Refunds and rebates	11,500	11,500	377	(11,123)
Total general government	813,772	834,043	725,672	(108,371)

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Public safety and health				
Public safety and health	\$ 420,214	\$ 420,214	\$ 398,862	\$ (21,352)
Building inspection	243,405	243,405	135,892	(107,513)
Total public safety and health	663,619	663,619	534,754	(128,865)
Public works				
Drains at large	12,531	52,451	52,447	(4)
Highways, streets, and bridges	307,000	750,550	662,580	(87,970)
Street lighting	16,561	19,640	19,458	(182)
Total public works	336,092	822,641	734,485	(88,156)
Community and economic development				
Planning and zoning	97,666	97,666	81,586	(16,080)
Recreation and cultural				
Parks and recreation	5,763	5,763	3,022	(2,741)
Capital outlay	20,000	147,311	132,310	(15,001)
Total expenditures	1,982,834	2,616,965	2,247,323	(369,642)
Revenue over (under) expenditures	(1,458)	(635,589)	(269,027)	366,562
Other financing sources				
Transfers in	137,038	490,689	36,968	(453,721)
Proceeds from sales of capital assets	-	-	4,363	4,363
Proceeds from issuance of bonds	-	363,100	880,000	516,900
Total other financing sources	137,038	853,789	921,331	67,542
Net change in fund balances	135,580	218,200	652,304	434,104
Fund balance, beginning of year	1,795,152	1,795,152	1,795,152	-
Fund balance, end of year	<u>\$ 1,930,732</u>	<u>\$ 2,013,352</u>	<u>\$ 2,447,456</u>	<u>\$ 434,104</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN**Statement of Net Assets****Proprietary Funds****December 31, 2006**

	Sewage Disposal	Water Extension	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 628,833	\$ 77,967	\$ 706,800
Restricted cash	130,588	36,425	167,013
Investments	3,295,916	869,894	4,165,810
Accounts receivable	16,274	-	16,274
Interest receivable	54,455	28,518	82,973
Current portion of special assessments receivable	51,602	61,467	113,069
Due from other funds	10,800	-	10,800
Deferred charges	86,113	30,628	116,741
Total current assets	4,274,581	1,104,899	5,379,480
Noncurrent assets:			
Special assessments receivable, net of current portion	2,832,082	1,103,528	3,935,610
Investment in joint venture	1,366,691	-	1,366,691
Capital assets not being depreciated	181,914	-	181,914
Capital assets being depreciated	3,744,020	1,579,695	5,323,715
Total noncurrent assets	8,124,707	2,683,223	10,807,930
Total assets	12,399,288	3,788,122	16,187,410
Liabilities			
Current liabilities:			
Accounts payable	146,154	3,791	149,945
Accrued interest payable	27,673	18,273	45,946
Due to other funds	-	16,600	16,600
Current portion of long-term debt	245,000	155,000	400,000
Total current liabilities	418,827	193,664	612,491
Long-term liabilities:			
Due in more than one year	3,175,872	1,421,588	4,597,460
Total liabilities	3,594,699	1,615,252	5,209,951
Net assets			
Invested in capital assets, net related debt	323,148	3,107	326,255
Unrestricted	8,481,441	2,169,763	10,651,204
Total net assets	\$ 8,804,589	\$ 2,172,870	\$ 10,977,459

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

	Sewage Disposal	Water Extension	Totals
Operating revenue			
User fee charges	\$ 268,805	\$ 38,151	\$ 306,956
Hook-up fees and permits	75,356	49,280	124,636
Total operating revenue	344,161	87,431	431,592
Operating expense			
General administration	71,584	56,435	128,019
Sewage plant administration	254,024	-	254,024
Depreciation	135,501	43,372	178,873
Total operating expense	461,109	99,807	560,916
Operating loss	(116,948)	(12,376)	(129,324)
Non-operating revenue (expenses)			
Interest revenue	157,560	63,393	220,953
Interest expense	(75,248)	(52,877)	(128,125)
Gain on investment in SCCMUA	76,501	-	76,501
Total non-operating revenue	158,813	10,516	169,329
Income (loss) before capital contributions and transfers	41,865	(1,860)	40,005
Capital contributions - special assessments	2,010,000	395,000	2,405,000
Transfers			
Transfers out	(17,504)	(2,464)	(19,968)
Change in net assets	2,034,361	390,676	2,425,037
Net assets, beginning of year	6,770,228	1,782,194	8,552,422
Net assets, end of year	<u>\$ 8,804,589</u>	<u>\$ 2,172,870</u>	<u>\$ 10,977,459</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Cash received from customers	\$ 341,434	\$ 87,431	\$ 428,865
Cash payments to suppliers for goods and services	(251,831)	(48,271)	(300,102)
Net cash provided by (used in) operating activities	89,603	39,160	128,763
Cash flows from non-capital financing activities			
Transfers out	(17,504)	(2,464)	(19,968)
Net cash used in non-capital financing activities	(17,504)	(2,464)	(19,968)
Cash flows from capital and related financing activities			
Purchase of capital assets	(181,914)	-	(181,914)
Payments received on special assessments	134,902	98,438	233,340
Interest payments	(72,593)	(52,093)	(124,686)
Principal payments	(155,000)	(140,000)	(295,000)
Premium on special assessment debt	11,771	2,425	14,196
Proceeds from issuance of bonds	2,010,000	395,000	2,405,000
Net cash provided by capital and related financing activities	1,747,166	303,770	2,050,936
Cash flows from investing activities			
Purchases of investments	(1,582,884)	(398,002)	(1,980,886)
Interest received	133,723	62,718	196,441
Capital contributions to SCCMUA	(224,547)	-	(224,547)
Net cash used in investing activities	(1,673,708)	(335,284)	(2,008,992)
Net increase in cash and cash equivalents	145,557	5,182	150,739
Cash and cash equivalents, beginning of year	613,864	109,210	723,074
Cash and cash equivalents, end of year	<u>\$ 759,421</u>	<u>\$ 114,392</u>	<u>\$ 873,813</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2006

	Sewage Disposal	Water Extension	Totals
Reconciliation to the Statement of Net Assets			
Cash and cash equivalents	\$ 628,833	\$ 77,967	\$ 706,800
Restricted cash	130,588	36,425	167,013
	<u>\$ 759,421</u>	<u>\$ 114,392</u>	<u>\$ 873,813</u>
Cash flows from operating activities			
Operating income (loss)	\$ (116,948)	\$ (12,376)	\$ (129,324)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	135,501	43,372	178,873
(Increase) decrease in:			
Accounts receivable	(2,727)	-	(2,727)
Prepaid expenses	21,169	-	21,169
Due from other funds	(10,800)	-	(10,800)
Deferred charges	(65,246)	(12,227)	(77,473)
Increase (decrease) in:			
Accounts payable	128,654	3,791	132,445
Due to other funds	-	16,600	16,600
	<u>\$ 89,603</u>	<u>\$ 39,160</u>	<u>\$ 128,763</u>
Net cash provided by (used in) operating activities	<u>\$ 89,603</u>	<u>\$ 39,160</u>	<u>\$ 128,763</u>
Non-cash transactions			
Gain on investment in SCCMUA	\$ 76,501	\$ -	\$ 76,501

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Fiduciary Net Assets
December 31, 2006

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 1,173,023
Investments	<u>403,997</u>
Total assets	<u><u>\$ 1,577,020</u></u>
 Liabilities	
Current tax distributions and deposits payable	<u><u>\$ 1,577,020</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Watertown Charter Township, Michigan is a municipal corporation governed by an elected supervisor and a seven-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

1-B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1-C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The *sewage disposal fund* accounts for the activities of the government's sewage disposal system.

The *water extension fund* accounts for the activities of the government's water distribution system.

Additionally, the government reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for revenue sources that are legally restricted to expenditures for major capital projects.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Agency funds. These funds account for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewage disposal and water enterprise funds are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

1-D. Assets, liabilities and equity

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-40
System infrastructure	40
Vehicles	5
Equipment	5-10

Compensated absences

It is the government's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Union employees are allowed to accumulate an unlimited amount of sick leave and non-union employees are allowed to accumulate 480 hours of sick leave, which is paid only upon illness while in the employ of the Township or at a rate of 50% upon retirement. Union employees are allowed to accumulate five days of vacation time and non-union employees are allowed to accumulate ten days of vacation time. Employees are only paid for unused vacation at the time of termination. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budgets for the General Fund and the Special Revenue Fund are adopted at the department level.

The government does not utilize encumbrance accounting.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

3-A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

Statement of Net Assets

Cash and cash equivalents	\$ 2,018,339
Restricted cash and cash equivalents	167,013
Investments	6,033,648

Statement of Fiduciary Net Assets

Cash and cash equivalents	1,173,023
Investments	<u>403,997</u>

Total	<u><u>\$ 9,796,020</u></u>
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Deposits and investments

Bank deposits (checking and savings accounts)	\$ 3,602,560
Investments	6,193,060
Cash on hand	<u>400</u>

Total	<u><u>\$ 9,796,020</u></u>
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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

The Township chooses to disclose its investments by specifically identifying each. As of year end, the Township had the following deposits and investments.

Investment	Carrying Amount (Fair Value)	Credit Rating	Maturity
U.S. agency – FNMA (callable)	\$ 400,000	S&PAAA	3/14/2007
Governmental money market:			
J.P. Morgan Chase	199,630	Unrated	N/A
Citizens	1,935,306	Unrated	N/A
Fifth Third	108,864	Unrated	N/A
MBIA	<u>3,549,260</u>	Unrated	N/A
Total	<u>\$ 6,193,060</u>		

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments, where applicable, have been identified above for the Township's investments.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. Credit risk ratings, where applicable, have been identified above for the Township's investments.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$ 2,018,714 of the Township's bank balance of \$ 3,598,586 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk. None of the Township's investments were exposed to custodial credit risk at year end.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

3-B. Receivables

Receivables as of year end are as follows:

	General	Nonmajor	Sewage	Water		Amounts Not
	Fund	Governmental	Disposal	Extension		Expected to
	Fund	Funds	Enterprise	Enterprise	Total	be Collected
			Fund	Fund		Within
						One Year
Taxes receivable	\$ 630,314	\$ 15,754	\$ -	\$ -	\$ 646,068	\$ -
Special assessments receivable	881,758	-	2,883,684	1,164,995	4,930,437	3,935,610
Accounts receivable	250	250	16,274	-	16,774	-
Interest receivable	-	-	54,455	28,518	82,973	-
Due from other governments	94,820	-	-	-	94,820	-
	\$ 1,607,142	\$ 16,004	\$ 2,954,413	\$ 1,193,513	\$ 5,771,072	\$ 3,935,610

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

3-C. Capital assets

Capital assets activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 41,570	\$ -	\$ -	\$ 41,570
Capital assets being depreciated:				
Buildings and improvements	150,330	36,982	-	187,312
Equipment	96,693	-	-	96,693
Vehicles	20,065	27,300	20,065	27,300
Total capital assets being depreciated	<u>267,088</u>	<u>64,282</u>	<u>20,065</u>	<u>311,305</u>
Less accumulated depreciation for:				
Buildings and improvements	(82,392)	(6,832)	-	(89,224)
Equipment	(52,912)	(10,850)	-	(63,762)
Vehicles	(20,065)	(5,460)	(20,065)	(5,460)
Total accumulated depreciation	<u>(155,369)</u>	<u>(23,142)</u>	<u>(20,065)</u>	<u>(158,446)</u>
Total capital assets being depreciated, net	<u>111,719</u>	<u>41,140</u>	<u>-</u>	<u>152,859</u>
Governmental activities capital assets, net	<u>\$ 153,289</u>	<u>\$ 41,140</u>	<u>\$ -</u>	<u>\$ 194,429</u>
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 181,914	\$ -	\$ 181,914
Capital assets being depreciated:				
Sewage disposal system	5,418,067	-	-	5,418,067
Water extension	1,734,895	-	-	1,734,895
Total capital assets being depreciated	<u>7,152,962</u>	<u>-</u>	<u>-</u>	<u>7,152,962</u>
Less accumulated depreciation for:				
Sewage disposal system	(1,538,546)	(135,501)		(1,674,047)
Water extension	(111,828)	(43,372)		(155,200)
Total accumulated depreciation	<u>(1,650,374)</u>	<u>(178,873)</u>	<u>-</u>	<u>(1,829,247)</u>
Total capital assets being depreciated, net	<u>5,502,588</u>	<u>(178,873)</u>	<u>-</u>	<u>5,323,715</u>
Business-type activities capital assets, net	<u>\$ 5,502,588</u>	<u>\$ 3,041</u>	<u>\$ -</u>	<u>\$ 5,505,629</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the Township as follows:

Governmental activities:

General government	\$ 15,958
Recreation and cultural	<u>7,184</u>

Total depreciation expense - governmental activities	<u>\$ 23,142</u>
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Business-type activities:

Sewage disposal	\$ 135,501
Water extension	<u>43,372</u>

Total depreciation expense - business-type activities	<u>\$ 178,873</u>
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3-D. Payables

Payables as of year end are as follows:

	General Fund	Government- Wide Statements	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total
Accounts payable	\$ 41,853	\$ -	\$ 146,154	\$ 3,791	\$ 191,798
Accrued wages	14,888	-	-	-	14,888
Accrued interest payable	-	3,849	27,673	18,273	49,795
Other liabilities	<u>3,011</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,011</u>
	<u>\$ 59,752</u>	<u>\$ 3,849</u>	<u>\$ 173,827</u>	<u>\$ 22,064</u>	<u>\$ 259,492</u>

3-E. Interfund receivables, payables and transfers

Interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. At December 31, 2006, due to/due from other funds consisted of the following:

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 33,158	\$ -
Non-major Governmental Funds	-	27,358
Sewage Disposal Fund	10,800	-
Water Extension Fund	-	16,600
	<u>\$ 43,958</u>	<u>\$ 43,958</u>

For the year ended December 31, 2006, interfund transfers consisted of \$17,504 and \$2,464 from the Sewage Disposal Enterprise Fund and the Water Extension Enterprise Fund, respectively, to the General Fund for administrative costs and to reimburse the General Fund for prior year operating subsidies. In addition, the Cemetery Improvement nonmajor governmental fund transferred \$17,000 to the General Fund for cost reimbursement.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3-F. Long-term debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. No general obligation bonds were issued during the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Governmental Activities:

Bonds Payable:

\$470,025 wastewater treatment plant bonds due in
annual installments of \$6,267 to \$31,335 through
May 1, 2007, interest at 5.8% to 7% \$ 31,335

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

\$345,000 special assessment bonds due in annual installments of \$5,000 to \$25,000 through August 1, 2021, interest at 5.0%.

\$ 345,000

\$535,000 special assessment bonds due in annual installments of \$20,000 to \$40,000 through August 1, 2021, interest at 3.875%

535,000

\$ 911,335

Business-type Activities:

Bonds Payable:

\$343,000 sanitary sewer improvement project special assessment bonds due in annual installments of \$8,000 to \$26,000 through May 1, 2010, interest at 6.8%

\$ 102,000

\$995,000 sewage disposal system bonds due in annual installments of \$56,580 to \$104,730 through March 1, 2020, interest at 5.1% to 7.5%

840,000

\$250,000 general obligation limited tax bonds due in annual installments of \$50,000 through August 1, 2009, interest at 2.3% to 2.9%

150,000

\$360,000 special assessment bonds due in annual installments of \$25,000 to \$30,000 through August 1, 2018, interest at 2.3% to 4.1%

310,000

\$275,000 special assessment bonds due in annual installments of \$11,900 to \$47,175 through May 1, 2010, interest at 4.6% to 5%

120,000

\$275,000 special assessment bonds due in annual installments of \$7,995 to \$47,883 through May 1, 2009, interest at 4.7% to 5.2%

90,000

\$990,000 special assessment bonds due in annual installments of \$70,000 to \$75,000 through August 1, 2018, interest at 2.6% to 4.6%

850,000

\$150,000 special assessment bonds due in annual installments of \$10,000 to \$15,000 through August 1, 2018, interest at 2.3% to 4.1%

130,000

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

\$2,010,000 special assessment bonds due in annual installments of \$85,000 to \$150,000 through August 1, 2021, interest at 3.875% \$ 2,010,000

\$395,000 special assessment bonds due in annual installments of \$15,000 to \$30,000 through August 1, 2021, interest at 3.875% 395,000

\$ 4,997,000

Annual debt service requirements to maturity for bonds are as follows:

Year Ended December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 56,335	\$ 25,306	\$ 400,000	\$ 176,314
2008	65,000	36,956	480,000	189,203
2009	65,000	34,156	476,000	170,026
2010	65,000	31,356	396,000	151,307
2011	65,000	28,556	340,000	136,120
2012-2016	305,000	101,944	1,650,000	472,650
2017-2021	<u>290,000</u>	<u>36,844</u>	<u>1,255,000</u>	<u>132,950</u>
	<u>\$ 911,335</u>	<u>\$ 295,118</u>	<u>\$ 4,997,000</u>	<u>\$ 1,428,570</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities					
Bonds	\$ 62,670	\$ 880,000	\$ 31,335	\$ 911,335	\$ 56,335
Compensated absences	20,713	24,346	21,050	24,009	24,009
	<u>\$ 83,383</u>	<u>\$ 904,346</u>	<u>\$ 52,385</u>	<u>\$ 935,344</u>	<u>\$ 80,344</u>
Business-type activities					
Bonds	\$ 2,887,000	\$ 2,405,000	\$ 295,000	\$ 4,997,000	\$ 400,000
Deduct unamortized bond discounts	(15,115)	-	(1,380)	(13,735)	-
Unamortized bond premiums	-	14,195	-	14,195	-
	<u>\$ 2,871,885</u>	<u>\$ 2,419,195</u>	<u>\$ 293,620</u>	<u>\$ 4,997,460</u>	<u>\$ 400,000</u>

For the governmental activities, compensated absences are liquidated by the general fund.

NOTE 4 – OTHER INFORMATION

4-A. Joint ventures

Southern Clinton County Municipal Utilities Authority

The Southern Clinton County Municipal Utilities Authority was created by contractual agreement between the Township, DeWitt Charter Township, Bath Charter Township, and the City of DeWitt to operate, maintain, administer and manage the sewage disposal system for the benefit of the contracting municipalities. Currently, the Township's ownership percentage in the joint venture is 16.202%. As of December 31, 2006, the Township's share of the Authority's net assets was \$1,366,691. Separate financial statements for the Southern Clinton County Municipal Utilities Authority are available at the office of the Authority at 3671 W. Herbison Road, DeWitt, MI 48820.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Looking Glass Regional Fire Authority

The Township created a joint fire department with Eagle Township to be known as the Looking Glass Regional Fire Authority. The Authority will provide fire protection services to the entire geographical area comprising Eagle Township and the Charter Township of Watertown, and may contract with other municipalities to provide fire protection services. Currently, the Authority is funded primarily through contributions from Watertown Charter Township (65%) and Eagle Township (35%). During the year ended December 31, 2006, the Township contributed \$277,411 to the Authority. Separate financial statements for the Looking Glass Regional Fire Authority are available at the office of the Authority at 7720 W. Grand River Avenue, Grand Ledge, MI 48837.

4-B. Risk management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2006, the government carried commercial insurance to cover all risks of losses. The Township has had no settled claims from these risks that exceeded its commercial coverage in any of the past three fiscal years.

4-C. Property taxes

The government's property taxes are levied on the assessed taxable value of property in the Township each December 1, which is the lien date, and are due in full by March 1 of the succeeding year, at which time uncollected taxes become delinquent. The December 1 levy is recorded as a receivable and deferred revenue at year end because it is intended to fund expenditures of the following fiscal year.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Township for the 2005 levy were assessed and equalized at \$203,045,333 (not including properties subject to Industrial Facilities Tax exemption), representing roughly 50% of estimated current market value. The government's general operating tax rate for the 2005 levy was 4.5542 mills, with an additional 0.1598 mills for debt retirement.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

4-D. Pension plan

The Watertown Charter Township Group Pension Plan is a defined contribution pension plan established by the Township to provide retirement benefits to all participating full-time employees of the Township. Plan provisions and contribution requirements are established and may be amended by the Township Board. The Township is required to contribute 10% of employee gross earnings. Employee contributions are optional. Employee contributions vest immediately, whereas employer contributions vest at a rate of 20% per year.

For the year ended December 31, 2006, the Township's contribution to the Plan was \$39,876. Employee contributions were \$15,358.

4-E. State Construction Code Act Compliance

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments, effective January 1, 2000. The Township has elected to record this activity in the General Fund.

For the year ended December 31, 2006, the Township's revenue and expenditures related to its building department were as follows:

Revenue – Building fee revenue	\$ 151,507
Expenditures	<u>164,638</u>
Current year loss	<u>\$ 13,131</u>
Losses absorbed in 2000-2005	<u>\$ 7,036</u>

* * * * *

COMBINING FUND
FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2006

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	<u>Township Improvement Revolving</u>	<u>Wastewater Treatment Plant Bonds</u>	<u>Cemetery Improvement</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 105,660	\$ 15,665	\$ 15,470	\$ 136,795
Investments	122,892	-	60,000	182,892
Taxes receivable	-	15,754	-	15,754
Accounts receivable	-	-	250	250
<u>TOTAL ASSETS</u>	<u>\$ 228,552</u>	<u>\$ 31,419</u>	<u>\$ 75,720</u>	<u>\$ 335,691</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Due to other funds	\$ 27,358	\$ -	\$ -	\$ 27,358
Deferred revenue	-	27,974	-	27,974
Total liabilities	27,358	27,974	-	55,332
Fund balances				
Unreserved, undesignated	201,194	3,445	75,720	280,359
<u>TOTAL LIABILITIES, AND FUND BALANCES</u>	<u>\$ 228,552</u>	<u>\$ 31,419</u>	<u>\$ 75,720</u>	<u>\$ 335,691</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2006

	Special Revenue	Debt Service	Capital Projects	
	Township Improvement Revolving	Wastewater Treatment Plant Bonds	Cemetery Improvement	Totals
Revenue				
Taxes and special assessments	\$ -	\$ 33,917	\$ -	\$ 33,917
Charges for services-cemetery	-	-	3,615	3,615
Interest and rentals	9,106	174	2,263	11,543
Total revenue	9,106	34,091	5,878	49,075
Expenditures				
General administration	15	-	-	15
Capital outlay	-	-	5,152	5,152
Debt service:				
Principal	-	31,335	-	31,335
Interest	-	3,329	-	3,329
Total expenditures	15	34,664	5,152	39,831
Revenue over (under) expenditures	9,091	(573)	726	9,244
Other financing sources				
Transfers out	-	-	(17,000)	(17,000)
Net changes in fund balances	9,091	(573)	(16,274)	(7,756)
Fund balances, beginning of year	192,103	4,018	91,994	288,115
Fund balances, end of year	\$ 201,194	\$ 3,445	\$ 75,720	\$ 280,359



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



June 14, 2007

To the Board of Trustees of the
Watertown Charter Township
Grand Ledge, Michigan

We have audited the financial statements of Watertown Charter Township for the year ended December 31, 2006, and have issued our report thereon dated June 14, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated February 8, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Watertown Charter Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Watertown Charter Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Watertown Charter Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Watertown Charter Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Watertown Charter Township, either individually or in the aggregate, indicate matters that could have a significant effect on Watertown Charter Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Watertown Charter Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Watertown Charter Township

Comments and Recommendations

For the Year Ended December 31, 2006

In planning and performing our audit of the financial statements of Watertown Charter Township as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider certain deficiencies, as described below, to be significant deficiencies in internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Other matters that we noted, including control deficiencies, are described below.

Cash receipts process –

During our audit procedures we noted the cash receipt copies from the Treasurer's Office are given to the bookkeeper approximately 2 times per month. To enhance internal controls in this area, we recommend that these receipts be given to the bookkeeper on at least a weekly basis. This would provide a more timely opportunity to go over any questions or discrepancies.

* * * * *